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TAGS: [BEXP](#) [BL](#) [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [PGOV](#)  
SUBJECT: HYDROCARBONS COMPANIES PESSIMISTIC, BUT WILLING TO  
NEGOTIATE

REF: LA PAZ 195

11. (SBU) Summary: In a recent meeting with the Ambassador, hydrocarbons company representatives discussed their concerns about negotiations with the incoming administration. They worried in particular about the likely absence of reasonable GOB interlocutors (subsequent ministerial appointments proved these worries well-founded), preferential treatment to state-owned companies such as Brazil's Petrobras and potentially Venezuela's PDVSA, and politicized charges of alleged contraband activities. Despite these worries, company representatives expressed a willingness to negotiate with the government over contract details (and to consider making additional investments) as long as they were assured of making a profit. Separately, January 27 news headlines announced that Repsol's share value dropped by 8%, in significant part due to the situation in Bolivia. End summary.

Reasonable Interlocutors are Key

12. (SBU) In a January 18 roundtable meeting in Santa Cruz with the Ambassador, representatives from Petrobras (Brazil), Repsol (Spain/Argentina), Total (France), Transredes (U.S.), Vintage (U.S.), and Chaco (U.S) were unanimous about the need for credible and trustworthy interlocutors in the Hydrocarbons Ministry and YPFB (the state oil company), underscoring that these positions would be key to the success of their negotiations with the future GOB. At the same time, they doubted they would get what they needed. In a separate meeting, the president of British Gas in Bolivia (BG - Britain) echoed that concern. (Comment: In the case of the hydrocarbons minister, the companies' worries deepened with the appointment of radical journalist and committed nationalizer, Andres Soliz Rada. They view the new YPFB chief, former MAS deputy and candidate for governor of Cochabamba, Jorge Alvarado, as better than Soliz, but only by

comparison. End comment.)

#### A Host of Worries Plagues the Industry

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¶3. (SBU) The Repsol representative emphasized that, notwithstanding Evo Morales' assurances during his world tour that his government would protect hydrocarbons investments, the industry was in for some rough times. Several representatives expressed concern that "politically correct" state-owned Petrobras and Venezuela's state-owned hydrocarbons company PDVSA, would receive more favorable treatment than private companies. The Chaco representative worried that PDVSA would "enter Bolivia through the back door", by buying shares of Bolivian pension funds that the May 2005 hydrocarbons law stipulates are to be transferred from privatized companies to YPFB, and gain increasing influence in Bolivia. (Note: PDVSA has recently opened an office in La Paz. End Note.) In addition, the Repsol and Chaco representatives were deeply worried about what they described as the politicized allegations that their companies were selling contraband and/or dodging taxes. (President Evo Morales and VP Alvaro Garcia Linera have repeatedly stated that the GOB would deal harshly with companies guilty of such charges, including by rescinding their contracts and pursuing legal action.) In addition, Transredes (the U.S.-owned pipeline operator), which is facing potential prosecution for a recent pipeline explosion, expressed concern that it could be added to the political hit list.

#### Despite Uncertainty, Some May Invest More

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¶4. (SBU) Despite their many concerns, company representatives expressed a willingness to negotiate with the new

administration as soon as possible. With an air of resignation, they suggested they could be flexible on the details of a new hydrocarbons regime -- e.g., changing contracts/agreeing to more state control over commercialization -- as long as they were able to protect their bottom lines. (Note: January 21 press reports stating that Repsol and Total had agreed to withdraw their arbitration trigger letters and negotiate with the GOB, which President Morales cited in his meeting with A/S Shannon -- reftel, are somewhat misleading. According to Repsol representatives, the company has not officially withdrawn its trigger letter, but rather agreed to pause the process until June 2006, at which time it will decide how to proceed based on the outcome of prospective negotiations. End note.) Furthermore, the President of BG told the Ambassador that his company, in a joint venture with Pan-American and Repsol, is considering going ahead with a US\$ 1 billion development of Margarita, one of Bolivia's largest gas fields. He explained that the company must think of the long term, as development beginning this year would not yield results until 2010 and BG's license for Margarita will expire in 2025.

#### Repsol Shares Crash

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¶5. (SBU) Separately, January 27 news headlines announced that Repsol's share value on the New York Stock Exchange dropped by close to 8%, in large part due to the Bolivia situation. News reports indicated that the drop was mainly caused by Repsol's reclassification of its reserves in Bolivia and Argentina. According to the press, Repsol revised its accounting practices to include only those Bolivian reserves that will be used to fulfill the company's commitments under the Gas Supply Agreement (GSA) between YPFB and Brazil that is in effect until 2019. All other reserves in country were written off. Repsol Bolivia President Julio Gavito told us that political and legal uncertainty -- the May 2005 hydrocarbons law coupled with the deeply uncertain plans of the new government -- had called into question the company's ability to extract other previously counted Bolivian reserves. Gavito added that other hydrocarbons companies in Bolivia, including Petrobras and Total, were in roughly the same boat.

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